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October 21, 1997

David Waddell
Executive Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: *Universal Service Generic Contested Case*
Docket 97-00888


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Dear Mr. Waddell:

Enclosed are the original and thirteen copies of AT&T's response to the Status Report of the Technical Conference held on October 14, 1997.

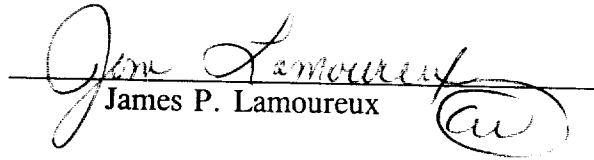
If you have any further questions, please contact Garry Sharp at 259-2830 or Carroll Wallace at 242-2813.

Sincerely,

Jim Lamoureux
Jim Lamoureux 

CERTIFICATE OF SERVICE

I, James P. Lamoureux, hereby certify that a true and exact copy of the foregoing has been served on counsel of record and other interested parties via First Class Mail postage prepaid, this 31st day of October, 1997.


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**BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

In Re:)	
UNIVERSAL SERVICE GENERIC)	
CONTESTED CASE)	Docket No. 97-00888
)	
)	

**AT&T 'S RESPONSE TO THE STATUS REPORT OF THE
TECHNICAL CONFERENCE HELD ON OCTOBER 14, 1997**

AT&T Communications of the South Central States, Inc. ("AT&T") hereby provides its comments on the subjects requested in the October 16, 1997, Status Report of Technical Conference Held on October 14, 1997.

- COMMENTS ON WHETHER THE NEW ISSUES IDENTIFIED BY THE STAFF FOR PHASE I ARE APPROPRIATE. THOSE ISSUES ARE 8D - E, 9A AND F - K, AND 15.

8d. What cost methodology should be used to determine existing implicit subsidies?

While AT&T agrees that the issue of cost methodologies is appropriate in both this proceeding and the Access Reform proceeding, AT&T does not agree that this question, as worded, is appropriate for either proceeding.

The purpose of this proceeding is to establish an explicit funding mechanism for the support of universal service in Tennessee, in order to replace the implicit subsidies currently in place. Therefore, AT&T agrees that the issue of cost methodologies for the calculation of universal service support in Tennessee must be considered in this proceeding. That issue is addressed by Questions 16 and 17 in this proceeding.

In addition, the Tennessee Regulatory Authority ("TRA") should reduce access charges to the economic cost of providing access, and should use a forward looking cost methodology to determine the cost of access. It is generally understood that inflated access charges are the largest contributor of subsidies for universal service support. However, there is no evidence that the amount of access charged is necessary to support universal service in Tennessee. Moreover, there is no need to calculate the amount of implicit subsidies which access charges provide to support universal service in Tennessee; the TRA should set the price of access at the economic cost of providing access and should eliminate the entire difference between the current price of access and the economic cost of access.

The difference between the current price of access and the economic cost of access should be eliminated concurrent with the establishment of a universal service support mechanism. However, it is important that the TRA not simply transfer the reduction in access prices into the funding for support of universal service. Access should be reduced to cost, independent of the determination of universal service support, and the amount of universal service support should be calculated by determining the economic cost to support universal service, independent of the reduction of access prices to economic cost.

Any cost methodologies for the determination of implicit subsidies that may be included in the prices of other services should be addressed in other proceedings, and the determination of such methodologies should not delay the implementation of an explicit universal service mechanism in Tennessee. There is no process in this proceeding to

determine the service(s) that may be providing implicit subsidies. It is more appropriate to initiate a separate investigation, as AT&T has done in the Access Reform proceeding, to determine whether any other services may be providing implicit subsidies.

Therefore, AT&T believes that the appropriate question in this proceeding should focus on the cost to provide access, and should be re-worded as follows:

"What cost methodology should be used to determine the cost of providing access?"

This question should be considered in conjunction with, but independent of, the issue of the determination of the cost to support universal service, i.e., Questions 16 and 17.

8e. Should the TRA identify implicit subsidies by element or groups of elements?

AT&T does not believe that this is an appropriate question for this proceeding, for the reasons identified above. In addition, prices for *services*, such as the price of access, provide implicit support for universal service. Elements, or groups of elements, do not and should not provide implicit support for universal service.

However, the network elements used to provide retail services eligible for universal service support are the same elements which the federal Telecommunications Act allows CLECs to purchase from ILECs. Therefore, AT&T believes the TRA must use the same methodology and cost models to calculate the costs of unbundled network elements and universal service support. This issue is addressed in Question 9f, below.

9a. Should universal service cost studies be company-specific or generic?

AT&T agrees that this is an appropriate question for this proceeding.

9f. Should universal service cost studies be based on cost studies for permanent UNE prices?

AT&T agrees that this is an appropriate question for this proceeding.

9g. Should costs be developed on a combined or intrastate basis?

AT&T agrees that this is an appropriate question for this proceeding.

9h. Should state specific or federal factors be used in the cost studies?

AT&T agrees that this is an appropriate question for this proceeding.

9i. Is it possible to create a hybrid model from the individually proposed models?

AT&T agrees that this is an appropriate question for this proceeding.

9j. Which network elements should be included in the revenue benchmark?

AT&T does not believe that this is an appropriate question for this proceeding.

Currently, prices for retail services, such as prices for access, provide implicit support for universal service. Elements, or groups of elements, do not and should not provide implicit support for universal service.

However, the network elements used to provide retail services eligible for universal service support are the same elements which the federal Telecommunications Act allows CLECs to purchase from ILECs. Therefore, AT&T believes the TRA must use the same methodology and cost models to calculate the costs of unbundled network elements and universal service support. This issue is addressed in question 9j, above.

9k. What time period should be used to calculate the revenue benchmark?

AT&T agrees that this is an appropriate question for this proceeding.

15. Should the access charge reform issues be incorporated into the schedule addressing Phase II of the universal service proceeding?

AT&T agrees that this is an appropriate question for this proceeding. Access prices are currently set well above the economic cost of providing access. Concurrent with the funding of universal service, the TRA should reduce access to its forward looking economic cost. This will eliminate a double assessment against interexchange carriers, guard against discriminatory treatment, and provide for a more competitively neutral means of funding universal service as required by the Telecommunications Act of 1996.

- A STATEMENT ON EACH OF THE ISSUES AS TO WHETHER A SETTLEMENT IS POSSIBLE OR WHETHER THE ISSUES CAN BE HANDLED BY BRIEFS ALONE I.E - TESTIMONY AT A HEARING WILL NOT BE NECESSARY

At this point, AT&T is unable to determine whether a settlement is possible as to any of the issues. However, AT&T believes that the following issues can be presented to the TRA by briefs without testimony: 1, 2, 3, 4, 6, 14, 15. All of these issues contain some questions of law, which can be addressed in briefs.

- IDENTIFICATION OF ISSUES OF LAW AND COMMENTS ON THE PROPOSED BRIEFING SCHEDULE

See AT&T's response to the above question concerning questions of law. AT&T believes that the schedule proposed at the Technical Conference is appropriate.

- COMMENT ON THE ISSUES IDENTIFIED FOR PHASE 2.

The amount of universal service support should be addressed in Phase 2.

Therefore, AT&T recommends that the TRA revise Issue No. 21 as follows:

"What should be the sources of support in a Tennessee universal service support system?"

This issue should be addressed in Phase I of this proceeding.

In addition, AT&T proposes that the following additional issues be added to Phase II of this proceeding:

1. What should be the amount of support in a Tennessee universal service support system?
 2. What are the appropriate revenue categories for the determination of a state specific revenue benchmark?
 3. What should be the Tennessee specific revenue benchmark?
- COMMENTS ON THE SCHEDULE FOR COMPLETION OF PHASE I AND PHASE 2

AT&T would propose the following modifications to the schedule. First, AT&T believes that it is appropriate to include on the schedule a date for filing post-hearing briefs in Phase I. AT&T proposes that briefs be due January 5, 1998. AT&T further believes that it is appropriate at the outset of Phase II to have a status conference, in addition to a technical conference, at which the parties may discuss issues, and other concerns that may need to be addressed in Phase II. AT&T also believes that the volume of discovery in Phase II will likely be greater than the volume of discovery in Phase I. Therefore, AT&T proposes that the parties be given more than 11 days to respond to

discovery. AT&T proposes that discovery responses be due February 23, 1998. AT&T believes that access charges should be reduced to cost concurrent with the implementation of a universal service support mechanism. Therefore, AT&T proposes that the Access Reform proceeding be scheduled to be completed concurrent with the completion of this proceeding. Finally, AT&T believes it is appropriate to schedule a date for the issuance of a comprehensive final order addressing all of the issues in the proceeding and adopting a comprehensive universal service plan.

- WHETHER A RESPONSE TO ISSUE 16 COULD BE DELIVERED BY NOVEMBER 14

AT&T believes that a response to Issue 16 could be delivered by November 14. Indeed, because AT&T uses the same methodology and cost model to calculate the costs of unbundled network elements and universal service support, AT&T already has answered many of these questions in its testimony in the Tennessee unbundled element cost proceeding.

- WHETHER A LIST OF ACCESS CHARGE REFORM ISSUES TO BE WORKED JOINTLY WITH THE PHASE 2 ISSUES COULD BE DELIVERED BY NOVEMBER 14?

AT&T believes that such a list of access charge reform issues could be delivered by November 14.

- ADDITIONAL COMMENTS

AT&T believes that the following issues in the Status Report require clarification or modification:

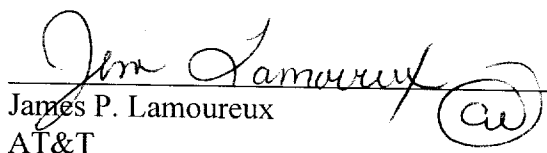
Issue 5b: AT&T proposes that this question be re-worded as follows: "Should an ETC be required to provide services throughout a designated service area? If so, which services must the ETC provide?"

Issue 7c: AT&T proposed that this question be re-worded as follows: "If so, how should the TRA gather information, what information should be gathered, and how should the TRA apply the federal standards in this case?"

Issue 8a: AT&T proposes that this statement be re-worded as follows: "Define implicit subsidy and explicit subsidy."

Issue 18: The statement of the issue presumes a "transition period." It is AT&T's position that a transition period is only applicable to the ICOs. Once a universal service support mechanism has been established and funded, access charges should immediately be reduced to cost. In short, a transition period should not be assumed.

Respectfully submitted,


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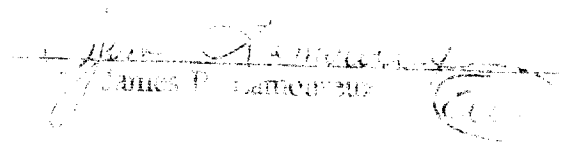
October 21, 1997

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VICE

James P. Lamoureux, hereby certify that a true and exact copy of the foregoing has been served on counsel of record and other interested parties via First Class Mail postage paid.

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